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C O N F I D E N T I A L SECTION 01 OF 02 STATE 111287

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SUBJECT: A/S SULLIVAN MEETING WITH AFGHANISTAN MINISTER OF
FINANCE AHADY

Classified By: EEB A/S Daniel S. Sullivan for reasons 1.4 (b), (d).

¶1. (C) Summary: In an October 15 meeting with A/S Sullivan, Afghanistan's Minister of Finance Ahady spoke of his primary concern that the global financial crisis might mean less international donor assistance for Afghanistan. He also asked for USG assistance in securing greater debt relief from several countries as well as help in encouraging the IMF to reconsider its "unrealistic" revenue targets for the Government of Afghanistan. Ahady was optimistic about reaching a transit trade agreement in the very near future with Pakistan, but expressed his concern about Pakistani implementation of such an agreement. End summary.

Minimal Effects of Global Financial Crisis on Afghanistan

¶2. (C) A/S Sullivan expressed his interest in what effects, if any, Ahady anticipated the global financial crisis would have on Afghanistan. Ahady responded that his primary concern was whether there would be enough resources from donor countries to continue financially assisting Afghanistan. Besides this concern, Ahady said that any further impact would be minimal, considering Afghanistan's financial market was not as developed or as integrated in the global economy. He did, however, note that he has taken the current global experience as a lesson to improve supervision of Afghanistan's banks as a precaution.

GOIA Asks for USG Assistance with Third Country Debt Relief

¶3. (C) Ahady mentioned several concerns about debt relief from other countries and asked for USG assistance. Currently, Ahady said that Afghanistan owes Kuwait approximately USD 20 million on a 1977 loan the Kuwait Fund for Arab Economic Development (KFAED) extended to finance a sugar factory in Afghanistan. The KFAED's January 2008 proposal to reschedule the debt is equivalent to a 67 percent reduction of the debt, given the longer period of repayment. However, Ahady noted that Paris Club terms require Afghanistan to accept from other creditors no less than an 80-84 percent write off in net present value terms. Ahady understood that the Kuwaitis were not opposed to further negotiation and asked for USG assistance to push the Kuwaitis to provide treatment comparable to Paris Club terms.

¶4. (C) Ahady also mentioned that a long outstanding debt (from the 1970s) of USD 32 million to the Czech Republic had

been sold by the Czech government to a private concern (of Iranians) who were now suing the GOIA for repayment in the amount of USD 68 million in a European court (Ahady was unsure which court). Ahady was adamant that the original debt obligation should have remained between the two governments concerned and said he was surprised how this situation could have happened.

15. (C) At this point, Ahady said that the Paris Club had forgiven 94 percent of its debt under the enhanced Heavily Indebted Poor Countries (HIPC) initiative and that the GOIA expected an additional write-off of USD 1 billion next summer if Afghanistan completes the HIPC process.

IMF Goals Too Ambitious

16. (C) The IMF's expectation that Afghanistan increase its revenue 32 percent over last year was a major sore spot for Ahady. While the GOIA had met their six-month target, Ahady said that the next six month target will be even more difficult to meet. Ahady mentioned that the IMF envisioned that Afghanistan could raise revenues through inflation and higher revenue collection, however, Ahady noted that rising food prices had forced the GOIA to eliminate custom tariffs. Ahady said he had voiced his concerns to the IMF over the

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weekend, but hinted that the USG could also raise this point with the IMF.

Transit Trade

17. (C) Following up on A/S Sullivan's discussions on transit trade between Afghanistan and Pakistan during the U.S.-Pakistan Economic Dialogue, A/S Sullivan asked Ahady about any progress the two countries had made. Ahady was optimistic that "we can resolve the issue, but implementation will be difficult" on the part of the Pakistanis. He referred to the existing 1964 treaty with Pakistan on transit trade, which he claimed the Pakistanis have failed to implement. On the general worsening of Pakistan's economy, Ahady said that he was more concerned about the effects of Pakistan's deteriorating security on Afghanistan, which he believed would hurt Afghanistan's customs revenues and imports, especially in the FATA/Northwest region.
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